FINANCIAL Review

This has been a challenging year for the Group, with the significant decline in the global sugar price negatively impacting profits. The continuing strong revenue performance of the Brands and Power clusters, coupled with the positive initial signals from our recently established Property and Leisure cluster, give us confidence that our strategy of optimising value by developing our core assets will deliver longer-term growth in this challenging sugar-price driven environment.

Income Statement: Group profits impacted by lower sugar prices

Group revenue for the 2017 financial year was up MUR 226.8 million (4.7%) to MUR 5,087.3 million, driven mainly by Brands and Power clusters. Despite the increase in revenue, gross profit for the Group was down by MUR 171.8 million to MUR 1,163.5 million. This 12.9% drop was due mainly to the 29.3% fall in the sugar price, which was mitigated by accompanying measures from the Mauritius Sugar Syndicate and the Sugar Insurance Fund Board, but nevertheless caused our local sugar operations to record a loss of MUR 191.4 million, including a standing crop fair value loss of MUR 115.3 million.

Group EBIT stood at MUR 318.7 million, with profit realised on land sales of MUR 164.3 million, significantly up compared to MUR 52.1 million in 2016. The new Property and Leisure cluster is now in operation, and has begun to unfold its strategy through the implementation of real-estate development opportunities in well located sites, with a view to creating and unlocking value of our land holdings in the near future. Rental income for the year was MUR 78.0 million, up 39.3% on MUR 56.0 million in 2016.

The year-on-year increase in depreciation and amortisation of MUR 15.5 million is linked to the higher asset base of the Group's property, plant and equipment. Finance costs amounted to MUR 100.4 million. The 27.4% increase is mainly due to additional group borrowing of MUR 339.2 million raised to partly finance capital expenditure and investments in financial assets.

The contribution from our Associates dropped by MUR 10.1 million, mainly due to underperforming investments in new emerging sectors.

Group profit for the year stood at MUR 244.3 million, a 33% reduction on last year, after accounting for an impairment of MUR 58.2 million and a deferred tax credit of MUR 32.8 million following a drop in income tax rate of subsidiaries engaged in export of goods. Earnings per share (EPS) dropped to MUR 0.38, down by MUR 0.58 on last year.

Financial highlights

	2017 MUR' M	2016 MUR' M	Change %
Revenue	5,087.3	4,860.5	4.7
Profit before finance costs (EBIT)	318.7	459.8	(30.7)
Profit after tax	244.3	368.2	(33.7)
Earnings per share (EPS)*	0.38	0.96	(60.4)
Net asset value per share (NAV)*	58.30	58.50	(0.3)
Gearing**	0.15 : 1	0.12 : 1	-
Dividend per share *	0.85	0.85	0.0

* Values are shown in MUR **Debt / (Debt + Equity)

Balance Sheet: Strong balance sheet retained and dividends delivered

The Group invested an additional MUR 405.6 million in property, plant and equipment to maintain and improve plant operational efficiencies.

Listed investments are valued on the basis of the higher of the net asset value (NAV) or market price. Our investment portfolio grew by MUR 214.8 million (6.3 %). Investments in associates and financial assets were fairly valued using the mark-to-market for all quoted investments, NAV or discounted cash flow (DCF) valuation principles, as appropriate. Total assets reached MUR 18,756.7 million, compared to MUR 18,348.4million in 2016.

Owners' interest dropped by MUR 48.5 million to MUR 13,258.3 million, mainly due to losses recorded by our local sugar growing operations which are held at 100% by the Group, while in the other profitable subsidiaries our percentage holding varies between 51% and 80%, hence a lower contribution towards owners' interest.

Group current and non-current borrowings amounted to MUR 2,698.2 million, an increase of 14.4 % over the previous year. The increase in debt is mainly attributable to the funding of capital expenditures and financial investments. Net debt to equity is at 17.6% and remains low in terms of the group borrowing capacity.

Net asset value remains at par with 2016 at MUR 58.30 per share, despite the adverse economic conditions facing our local sugar operations. Market capitalisation of the Group was at MUR 6,347.3 million at 31 December 2017. In line with our aim to pay a dividend that is considered sustainable in the medium to long term, the Group paid a dividend of MUR 0.85 per share to its shareholders.

Cash Flow: A decrease in cash and cash equivalents and increase of investments in production equipment's and other investments

Cash from operating activities amounted to MUR 246.5 million, while net cash used in investing activities stood at MUR 440.5 million, an increase of MUR 92.9 million year-on-year. The investments were mainly in property, plant and equipment (MUR 467.6 million), including replantation costs of MUR 62.0 million. We spent MUR 56.9 million on land development.

Terra also applied funds towards equity investments in United Investments Limited (MUR 145.2 million), Inside Equity Fund (MUR 7.5 million), Inside Capital Partners Ltd (MUR 3.0 million) and Beau Plan Campus Ltd (MUR 43.7 million). We increased our stake in Provident Warehouse Limited at a cost of MUR 21.3 million. Cash inflows were derived from proceeds realised on the sale of land (MUR 258.5 million), sale of fixed assets of MUR 0.9 million, as well as from interest received (MUR 11.4 million) and dividends received (MUR 137.8 million).

The net cash received from financing activities amounted to MUR 113.1 million, and consisted mainly of additional funds raised from institutions (MUR 415.8 million) and redemption of capital (MUR 3.8 million). The Group paid dividends of MUR 306.5 million to Terra' shareholders and the minority shareholders of its subsidiary companies, at much the same level as last year.

After taking into consideration the above transactions, overall cash and cash equivalents decreased by MUR 80.9 million.

Looking ahead: Prospects for 2018

Terra is pursuing its strategy of improving efficiency of its core activities, and unlocking the value of its land holdings in the north of Mauritius. We will continue to focus our attention on improving EBITDA margin, increasing the overall Group return on equity (currently at 2 %), and generating more cash across our various operating activities.

In closing, I wish to thank the Board and my colleagues on the executive team for their inputs and guidance throughout the year, and look forward to a positive year ahead.

Henri Harel
Group Chief Finance Officer
16 May 2018